

**STATEMENT OF**  
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**IN CONNECTION WITH THE**  
**U.S. HOUSE OF REPRESENTATIVES**  
**COMMITTEE ON WAYS AND MEANS**

**HEARING ON**

**TAX REFORM AND TAX FAVORED RETIREMENT ACCOUNTS**

**HELD ON**

**APRIL 17, 2012**

**Statement  
of  
Kathy Hamor  
The Savings Coalition of America**

**SUBMITTED TO THE  
Committee on Ways and Means  
U.S. House of Representatives  
April 17, 2012**

April 27, 2012

On behalf of its 45 member organizations, the Savings Coalition of America (“Coalition”) is pleased to submit these comments and commends the Committee on Ways and Means for its efforts to make it easier for Americans to save for their retirements. Currently, tens of millions of Americans are saving for retirement because of the enhancements made to retirement savings vehicles. The Coalition believes that more people will save if these vehicles are easier to understand.

While there are many aspects of the current system to be addressed, the Savings Coalition brings to your attention the provisions of the tax code that concern income limits and required minimum distributions from IRAs. These areas of the law are unnecessarily complex, unfair and distort personal financial decisions for Americans.

The Savings Coalition of America was established in 1991 to support incentives to increase the level of personal savings in the United States. It has actively supported the expanded Individual Retirement Account (IRA) provisions that increased contributions to spousal IRAs from \$250 to \$2000 in 1996; the increased income limits for IRAs and the establishment of the Roth IRA in 1997; and the increase in contribution limits for IRAs and the creation of catch up contributions in the 2001 tax bill and making these provisions permanent in 2006. Savings is a key component of economic policy. Treasury Secretary Timothy Geitner, in

an October 2009 interview with German weekly Die Zeit, stated," If the U.S. starts saving more, that changes the whole world's economic reality," he said, according to the German text of the interview.

In 2001, the Congressional Joint Committee on Taxation made recommendations for tax simplification in which it recommended the elimination of income limits on all IRAs and the elimination of the age requirement for minimum required distributions and described the complexity surrounding these sections of the tax code. The Coalition shares the view that these sections of the tax code are complex and confusing and urges the Committee on Ways and Means to review them.

### **Universally Available IRAs**

Currently the tax code has a number of income limits for eligibility to contribute to IRAs. In addition to different income limits for single and married Americans, there are different income eligibilities for the traditional, deductible IRA, the Roth IRA, and the nondeductible IRA. The lesson that we learned in the early 1980s, when IRAs were universally available to all Americans, is that more Americans saved. The universal eligibility led to mass marketing of these savings vehicles, which increased participation and more savings, something essential to our economy. When income limits were imposed after the Tax Reform Act of 1986, there was a precipitous drop in contributions to IRAs. The 1986 experience teaches us that limiting IRA eligibility based on income confuses people and scares them away from establishing a pattern of savings that IRAs would otherwise promote. One of the most important effects of the IRA cutbacks in the Tax Reform Act of 1986 is the fact that IRA contributions for those who continued to be eligible for deductible IRAs dropped by more than 40% in the first year and have since dropped by over 65%.

Members of the Savings Coalition believe that eliminating income limits and creating a universally available IRA will help more Americans save. An IRA that is universally available to all American workers would leave no doubt to their understanding of their eligibility. Universally available IRAs will be marketed and advertised on a massive scale and this advertising will have an ancillary benefit of educating people about the need to save. History demonstrates that the simpler it is to save, the more Americans are inclined to do so.

Under current law, deductible IRA and Roth IRA eligibility is determined based on whether a taxpayer falls under or between certain income thresholds, and for deductible IRAs, whether the taxpayer or the spouse, has access to an employer-sponsored retirement plan – a so called active participant. The 2012 income thresholds for the deducting IRA contributions are \$58,000 - \$68,000 for single taxpayers and \$92,000 - \$112,000 for married couples filing a joint return. If the taxpayer does not have access to a plan but the spouse does, the phase-out range is \$169,000 - \$179,000. Roth eligibility thresholds are \$110,000 - \$125,000 for single individuals and \$173,000 - \$183,000 for married couples filing a joint return. No income limits apply to single taxpayers and married couples where neither spouse is an active participant for deductible IRAs. Taxpayers making excess contributions are subject to penalties.

The confusing array of income limits and perceived lack of benefits discourages many workers from establishing and contributing to IRAs. Taxpayers who could make IRA contributions do not bother to establish a regular contribution schedule because they are concerned about income fluctuations and the fear that they will be “penalized” for making excess contributions that are not deductible. Further, the taxpayer could also establish a payroll deduction schedule or direct deposit schedule with his financial institution. Being able to establish a periodic contribution deposit schedule early in the year without the worry of a

possible ineligible contribution or penalty is critical to facilitating IRA contributions because it is a challenge for most individuals to come up with the funds necessary to make a lump sum contribution at year end.

This simplification will lead to less confusion for taxpayers and likely encourage more marketing of IRAs by financial institutions. Taxpayers need additional options to shore up their financial position because of the market downturn – easy to understand options will boost participation with confidence that contributions they make will not later be rendered ineligible.

Another area of confusion with income limits are the restrictions, for joint filers, around contributing to an IRA and deducting it is limited by participating in an employer plan in addition to income. If one spouse is covered by an employer plan and the other is not, as long as their income is below \$169,000, the non-covered spouse is eligible to make a deductible traditional IRA contribution. If they are both covered, then the phase out is in place which is between \$92,000 and \$112,000. Income is also considered for making a Roth IRA contribution. If income exceeds the limits, the person simply can't make a contribution. Also, if a person is not covered, or both spouses are not covered by an employer plan, then there is no income limit to making a deductible traditional IRA contribution. This adds a layer of complexity and confusion to already complex eligibility requirements which can have the result of reducing Americans savings in these important savings vehicles.

To add to the confusion, there were income limits for conversion from a traditional, deductible IRA to a Roth IRA until 2010 when the law changed to remove income limits for converting from a traditional IRA to a Roth IRA. Prior to that time, American savers' eligibility to change from a traditional IRA to a Roth was based on having an adjusted gross income of \$100,000 or less. Now Americans wanting to save more for their retirements can make IRA

contributions in a nondeductible IRA and convert the account to a Roth IRA the following year and incur the tax on it then. The Savings Coalition feels that it would be much less confusing to have IRAs that are universally available to lessen the confusion and encourage more retirement savings.

Members of the Savings Coalition of America feel strongly that tax reform should encourage Americans to take more responsibility for their retirements. One way in which this can be achieved is to promote values that we all share; such as savings and thrift. When it comes to savings, our tax code should encourage Americans to save for their futures and make it easier to do so. The variety of income limits for current tax-favored IRAs are cumbersome and confusing and we encourage the Committee to recommend substantial simplification in this area. Provisions that encourage individually responsible behavior such as savings should apply to all Americans. Our current tax-favored savings vehicles already limit the amount that can be saved. We should not limit eligibility of the people who can save through them. That just makes them more confusing.

### **Required Minimum Distributions**

Under present law, Americans who reach age 70 ½ are required to begin taking distributions from their IRAs. This is one of the most complex areas of tax law affecting retirees. For this reason, the staff of the Joint Committee on Taxation has recommended that the age limit for minimum required distributions be eliminated. One unintended consequence of the requirement is that individuals may be forced to take a distribution at a time when their investment has declined in value. Over the past several years, many retirees and workers about to retire have seen a drop in the value of their retirement nest eggs. Those subject to the requirement may be forced to realize losses on part of their investments at a time when they can

least afford to do so. The minimum required distributions rules merely determine when taxes will be imposed on retirement savings, not if. When the IRA owner withdraws funds, it will be taxed as ordinary income.

In addition, tax reform should take into account such things as a longer life expectancy for most Americans. U.S. life expectancy rates have increased substantially since the minimum distribution rules were first extended to all types of retirement plans. According to the Social Security Administration (SSA), in 1974, the year in which IRAs were created, the life expectancies for males & females were 68.3 years and 76.0 years respectively. In 2000, SSA projected life expectancies of almost 74 years for males and 80 years for females. With such substantial increases in longevity, it is important that the minimum distribution rules be updated to ensure that American workers are not forced to take distributions prematurely.

Critics also overlook recent trends in the numbers of seniors working past the age of 65 and into their seventies. According to the U.S. Bureau of Labor Statistics, more than 7 million workers are age 65 and over – an increase of more than 100 percent since 1985<sup>1</sup>. With the recent market downturn, more and more seniors are putting off their retirement. According to a 2002 survey, 1.9 million households will be delaying retirement, contributing further to the numbers of seniors in the workforce. It is shortsighted policy to force distributions from retirement accounts when seniors are pushing back retirement dates to ensure they will have enough to live comfortably throughout their retirement years. As Americans live longer, we have learned that the minimum required distribution rules have become more burdensome and need to be eliminated or at the very least, changed to reflect gains in life expectancy.

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<sup>1</sup> US Bureau of Labor Statistics, **Labor Force Statistics from the Current Population Survey Database**

The Savings Coalition of America

The Savings Coalition supports the Committee on Ways and Means' goal towards tax simplification and offers its assistance in this effort. We look forward to working with you on this important initiative.